
OFFICIAL TERMINOLOGY OF THE CIMA (2001) : MANAGEMENT ACCOUNTING

A

Absorbed Overhead: Overheads which, by means of absorption rates, are included in costs of specific products or saleable services, in a given period of time.

Absorption Cost: The procedure which charges fixed as well as variable overhead at a predetermined level of activity.

Absorption Rate: A rate charged to a cost unit intended to account for the overhead at a predetermined level of activity.

Activity-based Costing (ABC): Cost attribution to cost units on the basis of benefit received from indirect activities, e.g., ordering, setting-up-, assuring quality.

Administration Cost: Cost of management, and of secretarial, accounting and administrative services, which cannot be directly related to the production, marketing, research or development functions of the enterprise.

Attainable Standard : A standard which can be attained if a standard unit of work is carried out efficiently, a machine properly operated or a material properly used. Allowances are made for normal losses, waste and machine downtime.

The standard represents future performance and objectives which are reasonably attainable. Besides having a desirable motivational impact on employees, attainable standards serve other purposes, e.g., cash budgeting, inventory valuation and budgeting departmental performance.

B

Basic Standard: A standard established for use over a long period from which a current standard can be developed.

Bases of Apportionment: Formulae varying according to the nature of costs for the purpose of apportioning those costs among cost centres or products.

Basic Costing Method: A method of costing which is devised to suit the methods by which goods are manufactured or services are provided.

Batch Cost: Aggregated costs relative to a cost unit which consists of a group of similar articles which maintains its identity throughout one or more stages of production

Batch Costing: That form of specific order costing which applies where similar articles are manufactured in batches, either for sale or for use within the undertaking. In most cases the costing is similar to job costing.

Breaking-down Time: The time required to return a work station to a standard condition after completion of an operation.

Break-even Chart: A chart which indicates approximate profit or loss at different levels of sales volume within a limited range.

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Break-even Point : The level of activity at which there is neither profit or loss. It can be ascertained by using a break-even chart or by calculation.

Budget : A plan expressed in money. It is prepared and approved prior to be budget period and may show income, expenditure and the capital to be employed.

Budget Cost Allowance: The cost which a budget centre is expected to incur in a control period.

At its simplest this usually comprises variable costs in direct proportion to the volume of production or service achieved, and fixed costs as a proportion of the annual budget.

Budget Period: The period for which a budget is prepared and used, which may then be sub-divided into control periods.

Budgetary Control: The establishment of budgets relating to responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy or to provide a basis for this revision.

Budget Centre: A section of an entity for which control may be exercised and budgets prepared.

By-product: A product which is recovered incidentally from the material used in the manufacture of recognised main products, such a by-product having either a net realisable value or a usable value which is relatively low in comparison with the saleable value of the main products. By-products may be further processed to increase their realisable value.

C

Capital Expenditure Budget: A plan for capital expenditure in monetary terms.

Capital Expenditure: Expenditure on fixed assets or additions thereto intended to benefit future accounting periods (in contrast to revenue expenditure which benefits a current period) or expenditure which increases the capacity, efficiency, life span or economy of operation of an existing fixed asset.

Cash Flow Budget: A detailed budget of income and cash expenditure incorporating both revenue and capital items.

The cash flow budget should be prepared in the same format in which the actual position is to be presented. The year's budget is usually phased into shorter periods for control, e.g. monthly or quarterly.

Changeover Time: The time required to change a work station from a state of readiness for one operation to a state of readiness for another.

Common Costs: Shared costs of more than one product or service, where the shared proportions are determined by management decision.

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Contribution Centre: A profit centre whose expenditure is reported on a marginal or direct cost basis.

Continuous Operation/Process Costing: The basic costing method applicable where goods or services result from a sequence of continuous or repetitive operations or processes to which costs are charged before being averaged over the units produced during the period.

Contract Cost: Aggregated costs relative to a single contract designated as cost unit. This usually applied to major long term contracts as distinct from short term job costs.

Contract Costing: That form of specific order costing which applies where work is undertaken to customer's special requirements and each order is of long duration (compared with those to which job costing applies) The work is usually constructional and in general the method is similar to job costing.

Contribution: Sales value less variable cost of sales. It may be expressed as total contribution, contribution per unit or as a percentage of sales.

Controllable or Managed Cost: A cost, chargeable to a budget or cost-centre, which can be influenced by the actions of the person in whom control of the centre is vested. It is not always possible to predetermine responsibility, because the reason for deviation from expected performance may only become evident later. For example, excessive scrap may arise from inadequate supervision or from latent defect in purchased material.

Conversion Cost: Costs of converting material input into semi-finished or finished products, i.e. additional direct materials, direct wages, direct expenses and absorbed production overhead.

Cost Centre: A production or service location, function activity or item of equipment whose cost may be attributed to cost units.

Cost Accounting: The establishment of budgets, standard costs and actual costs of operations, processes activities or products and the analysis of variances, profitability or the social use of funds. The use of the term costing is not recommended except with a qualifying adjective e.g., standard costing.

Cost (as a noun) : The amount of expenditure (actual or notional) incurred on, or attributable to, a specified thing or activity.

(as a verb) : to ascertain the cost of a specified thing or activity.

The word Cost can rarely stand alone and should be qualified as to its nature and limitations.

Cost Allocation: That part of cost attribution which charges specific cost to a cost centre or cost unit.

Cost Apportionment: That part of cost attribution which shares costs among two or more cost centres or cost units in proportion to the estimated benefit received using a proxy, e.g. square metres.

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Cost Ascertainment: The collection of costs attributable to cost centres and cost units using the costing methods, principles and techniques prescribed for a particular business entity.

Cost Attribution: The process of relating cost to cost centres or cost units using cost allocation or cost apportionment.

Cost of Sales: The sum of direct cost of sales plus factory overhead attributable to the turnover.

In management accounts this may be referred to as production cost of sales, or cost of goods sold.

Cost Unit: A unit of product or service in relation to which costs are ascertained.

Cost Unit Rate: A rate calculated by dividing the budget or estimated overhead cost attributable to a cost centre by the amount of direct labour cost expected to be incurred (or which would relate to working at normal capacity) and expressing the result as a percentage.

Current Standard : A standard established for use over a long period from which a current standard can be developed.

D

Depreciation: The measure of the wearing out, consumption or other loss of value of a fixed asset whether arising from use, effluxion of time or obsolescence through technology and market changes (SSAP 12).

Development Cost: The cost of using scientific or technical knowledge in order to produce new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production (SSAP 13)

Direct Cost of Sales: The sum of direct materials consumed, direct wages, direct expenses and variable production overhead.

In management accounting this may be referred to as direct production cost of sales.

Direct Expenses: Costs other than materials or labour, which can be identified in a specified product or saleable service.

Direct Labour Cost: The cost of remuneration for employees' efforts and skills applied directly to a product or saleable service and which can be identified separately in product costs.

Direct Materials Cost: The cost of materials entering into and becoming constituent elements of a product or saleable service and which can be identified separately in product costs.

Distribution Cost: Cost incurred in warehousing saleable products and in delivering products to customers.

Direct hours: The hours of employees applied directly to a product or service.

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Down time: The period of time for which a work station is not available for production due to a functional failure.

Direct Labour Cost Percentage Rate: A rate calculated by dividing the budgeted or estimated overhead cost attributable to a cost centre by the appropriate number of direct labour hours.

Hours may be either the number of hours expected to be worked, or the number of hours which would relate to working at normal capacity.

Departmental/Functional Budget : A budget of income and/or expenditure applicable to a particular function.

A function may refer to a department or a process.

E

Economic Order Quantity: A quantity of materials to be ordered which takes into account the optimum combination of (i) bulk discounts from high volume purchases, (ii) usage rate, (iii) stock holding costs, (iv) storage capacity, (v) order delivery time, and (vi) cost of processing the order.

Element of Cost: The constituent parts of costs according the factors upon which expenditure is incurred viz. Materials, labour and expenses.

Equivalent Units: A notional quantity of completed units substituted for an actual quantity of incomplete physical units in progress, when the aggregate work content of the incomplete units is deemed to be equivalent to that of the substituted quantity of completed units, e.g., 150 units 50 percent complete = 75 equivalent units.

The principle applies when operation costs are being apportioned between work in progress and complete output.

Employment Cost: A generic term given to costs attributable to an employee, in addition to gross wages/salaries.

They usually include employers' national health insurance and state pensions contributions, employers' pension premiums, holidays with pay, employers' contributions to sickness benefit schemes and other benefits, e.g. protective clothing and canteen subsidies.

Exceptions Reporting: A system of reporting based on the exception principle which focuses attention on those items where performance differs significantly from standard or budget.

F

Fixed Overhead Cost: The cost which accrues in relation to the passage of time and which, within certain output and turnover limits, tends to be unaffected by fluctuations in the levels of activity (output or turnover).

Examples are rent, rates, insurance and executive salaries. Other terms used included period cost and policy cost.

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First in, First out Price (FIFO): A method of pricing material issues using the oldest purchase price first.

Fixed Budget: A budget which is designed to remain unchanged irrespective of the volume of output or turnover attained.

Flexible Budget: A budget which, by recognising different cost behaviour patterns, is designed to change as volume of output changes.

I

Incremental Costing : A technique used in the preparation of ad hoc information where consideration is given to a range of graduated or stepped changes in the level or nature of activity, and the additional costs and revenues likely to result from each degree of change are presented.

Incremental Yield : A measure used in capital investment appraisal where a choice lies between two or more projects.

The cash flows of project A are deducted from those of project B and the rate of return is calculated on the incremental cash flow.

Incremental Rate of Return (IRR): A percentage discount rate used in capital investment appraisal which brings the cost of a project and its future cash inflows into equality.

Idle Time: The period of time for which a work station is available for production but is not utilised due to shortage of tooling material, operations, etc.

Ideal Standard: A standard which can be attained under the most favourable conditions with no allowance for normal losses, waste and machine downtime. Also known as potential standard.

Investment Centre: A profit centre whose performance is measured by its return on capital employed.

Indirect Expenses: Expenses which are not charged directly to a product, e.g., buildings, insurance, water rates.

Indirect Labour Cost: Labour Costs which are not charged directly to a product, e.g., supervision.

Indirect Materials Cost: Materials costs which are not charged directly to a product, e.g. coolant, cleaning materials.

J

Job Cost: Aggregated costs relative to a cost unit which consists of a single specific customer order or specific task.

Job Costing: That form of specific order costing which applies where work is undertaken to customers' special requirements and each order is of comparatively short duration (compared with those to which contract costing applies).

The work is usually carried out within a factory or workshop and moves through processes and operations as a continuously identifiable unit. The term may also be

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applied to work such as properly repairs and the method may be used in the costing of internal capital expenditure jobs.

Joint Cost: The costs of providing two or more products or services whose production could not, for physical reasons, be segregated.

Example, the cost of sheep rearing to produce both mutton and wool.

Joint Products: Two or more products separated in the course of processing, each having a sufficiently high saleable value to merit recognition as a main product.

L

Limiting Factor or Key Factor: A factor which at any time or over a period may limit the activity of an entity, often one where there is shortage or difficulty of supply.

Long-term Strategic Planning : The formulation, evaluation and selection of strategies involving a review of the objectives of an organisation, the environment in which it is to operate, and an assessment of its strengths, weaknesses, opportunities and threats for the purpose of preparing a long term strategic plan of action which will attain the objective set.

Last in, First out Price (LIFO): A method of pricing material issues using the last purchase price first.

Life cycle costing: The practice of obtaining, over their life-times, the best use of physical assets at the lowest total cost to the entity (terotechnology).

This is achieved through a combination of management, financial, engineering and other disciplines.

Long Term Budget: A long term plan usually prepared in monetary terms.

M

Management Audit: An objective and independent appraisal of the effectiveness of managers and the effectiveness of the corporate structure in the achievement of company objectives and policies.

Its aim is to identify existing and potential management weaknesses within an organisation and to recommend ways to rectify these weaknesses.

Margin of Safety: The excess of normal or actual sales over sales at break-even point

Marketing Cost: The cost incurred in researching the potential markets and promoting products in suitably attractive forms and at acceptable prices.

Master Budget: A budget which is prepared from, and summarises, the functional budgets. The term summary budget is synonymous.

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Machine Hour Rate : A rate calculated by dividing the budget or estimated overhead or labour and overhead cost attributable to a machine group of similar machines by the appropriate number of machine hours.

The hours may be the number of hours for which the machine or group is expected to be operated, the number of hours which would relate to normal working for the factory, or full capacity.

Margin: Sales less the cost of sales expressed either as a value or a percentage. Since the margin may be calculated at different stages, the terms gross and net margin, also known as gross profit and net profit, are used to differentiate between the levels.

Marginal Cost: The cost of one unit of product or service which would be avoided if that unit were not produced or provided.

Note: In this context, a unit is usually either a single article or a standard measure such as the litre or kilogram, but may in certain circumstances be an operation, process or part of an organisation.

Marginal Costing: The accounting system in which variable cost are charged to cost units and fixed costs of the period are written off in full against the aggregate contribution.

N

Non-controllable Cost (indirectly controlled cost) : A cost chargeable to a budget or cost centre which can only be influenced indirectly by the actions of the person in whom control of the centre is vested.

Typically, these costs will be mainly an apportionment of overhead costs of the entity.

Notional Cost: The value of a benefit where no actual cost is incurred.

O

Operation Time: The period of time required to carry out an operation on a complete batch exclusive of set-up and breaking-down times.

Opportunity Cost: The value of a benefit sacrificed in favour of an alternative course of action.

Overhead Absorption Methods: The charging of overhead to cost units by means of rates separately calculated for each cost centre.

In most cases the rates are predetermined.

Overhead Cost: The total cost of indirect materials, indirect labour and indirect expenses.

P

Prime Cost: The total cost of direct materials, direct labour and direct expenses.

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The term prime cost is commonly restricted to direct production costs only and so does not customarily include direct production costs only and so does not customarily include direct costs of marketing or research and development.

Production Cost: Prime cost plus absorbed production overhead.

Policy Cost: Costs incurred as a result of taking a particular policy decision. For example, ownership of assets will create a charge for depreciation. Depreciation is, therefore, a policy cost.

Product Cost : The cost of a finished product built up from its cost elements.

An example of a product cost which provides for a first estimate, a subsequent standard cost and for stock valuations at various work in progress stage.

Perpetual Inventory : The recording as they occur of receipts, issues, and the resulting balances of individual items of stock in either quality or quantity and value.

Physical Inventory: An inventory determined by actual count, weight or measurement.

Process Time: The period of time which elapses between the start and finish of one process or stage of a process.

Production Cost Centre: A cost in which production is carried on: this may embrace one specific operation, e.g., machine, or a continuous process, e.g., distillation.

Profit Centre: A part of a business accountable for costs and revenues. It may be called a business centre, business unit, or strategic business unit.

PERT (Project Evaluation and Review Technology) : A specification of all activities events and constraints relating to a project, from which a network is drawn which provides a model of the way the project should proceed.

Product Life Cycle: The pattern of demand for a product or service over time.

Principle Budget Factor: A factor which, at a particular time or over a period, will limit the activities of an undertaking and which is, therefore, taken into account in preparing budgets.

Publicity Cost: (a) Cost incurred in advertising and promotion as aids to the eventual sales of goods or services.

(b) Cost incurred in advertising and promotion of an entity as distinct from its products or services (public relations)

R

Raw Materials: Unprocessed stock awaiting conversion.

Rejects: Units of output which fail to reach the required standard of quantity or specification before despatch to customers or subsequent users. Such faulty units may be capable of rectification, and may be so corrected if the cost of doing so is less than the loss in value from allowing the fault to remain uncorrected. When it is uneconomic to

Official Terminology Of The CIMA

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rectify a fault, the article may be sold as sub-standard if it is still functionally sound; otherwise, it may be disposed of as crap.

Responsibility Accounting: A system of accounting that segregates revenues and costs into areas of personal responsibility in order to assess the performance attained by persons to whom authority has been assigned.

Responsibility Centre: A unit or function of an organisation headed by a manager having direct responsibility for its performance.

Revenue Centre: A centre devoted to raising revenue with no responsibility for production, e.g., a sales centre, often used in a not-for-profit organisation.

Relevant Costs: Costs appropriate to aiding the making of specific management decisions.

Replacement Price: The price at which material identical to that which is to be replaced could be purchased at the date of valuation (as distinct from actual cost price at actual date of purchase).

Rolling Budget: The continuous updating of a short term budget by adding, say, a further month or quarter and deducting the earliest month or quarter so that the budget can reflect current conditions.

Such procedures are beneficial where future costs and/or activities cannot be forecast with any degree of accuracy.

Research Cost (Applied): The cost of original investigation undertaken in order to gain new scientific or technical knowledge and directed towards a specific practical aim or objective (SSAP 13)

S

Selling Cost: Cost incurred in securing orders, usually including salesmen's salaries, commissions and travelling expenses.

Short term Budget: A budget established for use over a short period of time (usually one year but sometimes less) and which the person responsible is expected to achieve and use for control purposes.

Standard: A Predetermined measurable quantity set in defined conditions against which actual performance can be compared, usually for an element of work, operation or activity.

While standards may be based on unquestioned and immutable natural law or facts, they are finally set by human judgement and consequently are subject to the same fallibility which attends all human activity. Thus a standard for 100 percent machine output can be fixed by its geared input/output speeds, but the effective realisable output standard is one of judgement.

Standard Cost: A standard expressed in money. It is built up from an assessment of the value of cost elements. Its main uses are providing bases for performance

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measurement, control by exception reporting, valuing stock and establishing selling prices.

Standard Price: A predetermined price fixed on the basis of a specification of a product or service and of all factors affecting that price.

Standard Production Cost—Total: The predetermined cost of producing or providing specified quantities of products or service at standard performance over a specified period.

Standard Production Cost—Unit: The predetermined cost of producing or providing a specified quantity of a product or service at standard performance.

Standard Profit—Total: The predetermined profit arising from the sale of actual quantities of products or services at standard selling prices, over a specified period.

Standard profit may be at the level of net profit, gross profit, or contribution. Profit which relates only to trading activities is often referred to as operating profit.

Standard Selling Price—Unit: A predetermined price for a specified unit to be sold.

A unit may consist of a single item or a batch of processed output.

Standard Unit of Work: A unit of work consisting of basic time plus relaxation allowance and contingency allowance where applicable.

The unit of work may be for labour output only, a combination of machine and labour output, or for a machine only.

Standard Time: The total time (hours and minutes) in which a task should be completed at standard performance, i.e. basic time plus contingency allowance where applicable.

Stock Control: The systematic regulation of stock levels with respect to quantity, cost and lead time.

The alternative term inventory control is common in the U.S.A.

Stock Recorder Level: A quantity of materials fixed in advance at which level stocks should be reordered.

Stocktaking: A process whereby stocks (which may comprise direct and indirect materials, work in progress and finished goods) are physically counted and are then valued item by item.

This may be at a point in time (periodic) or by counting and valuing a number of items at different times (continuous)

Service Cost Centre: A cost centre providing services to other cost centres. When the output of an organisation is a service, rather than goods, an alternative term is normally used, e.g., support cost centre or utility cost centre.

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Scrap: Discarded material which has some recovery value and which is usually either disposed of without further treatment (other than reclamation and handling), or reintroduced into the production process in place of raw material.

Set-up Time: The time required to prepare a work station from a standard condition to readiness to commence a specified operation.

Stock: Any current asset held for conversion into cash in the normal course of trading, e.g., raw materials, work-in progress, finished goods and goods in transit, or on consignment, or on sale or return.

Sunk Cost: Shared costs of more than one product or service, where the shared proportions are determined by management decisions.

Semi-Variable Cost/Semi-Fixed Cost: A cost containing both fixed and variable elements, and which is thus partly affected by fluctuation in the level of activity.

Service/Function Costing: Cost accounting for services or functions, e.g., canteens, maintenance, personnel. These may be referred to as service centres, departments or functions.

Specific Order Costing: The basic cost accounting method applicable where the work consists of separate contracts, jobs or batches.

T

Turnover: Amounts derived from the provision of goods and services falling within the company's ordinary activities, after deduction of trade discounts, value added tax, and any other taxes based on the amounts so derived (Companies Act)

This would normally be invoiced sales less returns and allowances.

U

Under-or-over-absorbed overhead: The difference between overhead cost incurred and overhead cost absorbed; it may be split into its two constituent parts for control purposes.

Uniform Costing: The use by several undertakings of the same costing systems, i.e., the same basic costing methods, principles and techniques.

V

Value Analysis: A systematic inter-disciplinary examination of factors affecting the cost of a product or service, in order to devise means of achieving the specified purpose most economically at the required standard of quality and reliability.

Variance: The difference between planned, budgeted, or standard cost and actual costs (and similarly in respect of revenues)

Note: This is not to be confused with the statistical variance which measures the dispersion of a statistical population.

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Variance Analysis: The analysis of variance arising in a standard costing system into their constituent parts.

It is the analysis and comparison of the factors which have caused the difference between predetermined standards and actual results, with a view to eliminating inefficiencies.

Variable Cost: Cost which tends to vary with the level of activity.

Variable Overhead Cost: Overhead cost which tends to vary with changes in the level of activity.

W

Weighted Average Price: A method of pricing material issues using a price which is calculated by dividing the total cost of material in stock by the total quantity in stock.

Waiting Time: The period of time for which an operator is available for production but is prevented from working by storage of material or tooling, machine breakdown.

Waste: Discarded substances having no value (as distinct from scrap)

Work in progress: Any material, component, product or contract at an intermediate stage of completion.

Z

Zero Base Budgeting: A method of budgeting whereby all activities are re-evaluated each time a budget is set. Discrete levels of each activity are valued and a combination chosen to match funds available.

Each functional budget starts with the assumption that the function does not exist and is at zero costs. Increments of cost are compared with increments of benefit, culminating in the planned maximum benefit for a given budget cost.